

MEMO

To: House Republican Leader John Boehner
From: Douglas Holtz-Eakin
Date: August 24, 2009
Re: Obama Administration's *Mid-Session Review of the Budget*

Tomorrow, the Obama Administration is expected to release its *Mid-Session Review of the Budget* (MSR). There are several aspects worth noting:

The Substance

- The current-year deficit will look better.
 - According to a *Bloomberg* report, the Administration's Mid-Session Review will show that the FY 2009 budget deficit "will total \$1.58 trillion, about \$262 billion less than forecast in May."
 - All of the improvement is simply due to manipulating the assumptions about future bailout costs. The Administration dropped a charge of \$250 billion to the FY 2009 budget deficit as a placeholder for additional bailout losses. In addition, they assumed 2009 FDIC losses would be \$78 billion lower.
 - If you exclude these special assumptions, the deficit picture is worse.
- All the out-year deficits (2010 through 2019) will be worse.
 - The Administration's economic forecast was far too rosy earlier this year. With lower economic growth assumptions, the long-term deficits will be far larger.
 - According to a *Reuters* story on Friday, "the administration will increase its 10-year budget deficit projection to roughly \$9 trillion from \$7.108 trillion in a report next week."
 - These deficits will likely be even worse than the Administration presents:
 - They will continue to assume that they get \$640 billion in cap-trade revenue, which they will not get.
 - They will continue to assume that they raise \$200 billion from taxing international businesses. Many Democrats oppose this, so it is unlikely.
 - They will continue to assume that they raise taxes on small businesses in 2011. If the economy remains weak, they will not.
 - They will continue to assume that many of the provisions of the stimulus (Make Work Pay, expanded Pell Grants, etc.) will expire. It is unlikely Democrats will allow them to expire.
 - They continue to pretend that health care reform will be budget neutral. Every independent analysis has shown that the Democrats' plan has been a budget buster.

- Bottom line: the budget outlook is worse, and dangerous.

The Spin

- Timing the release. The Administration's Mid-Session Review is bad news. It appears that the Administration delayed its release several times and with the hope of releasing it exactly the same day as the Congressional Budget Office's (CBO) *Summer Update* to the budget outlook, thereby earning only one day of bad news instead of two. If they don't coincide, the two releases will still be unusually close together.
- The CBO numbers will likely be even worse than the Administration's numbers. They Administration will hope that the inevitable confusion about the various estimates will lessen the impact of the stories.
- One item of interest will be how they handle the accounting for the rising costs of the stimulus package.
 - Because the Administration will forecast a weaker economy and higher unemployment (compared to earlier this year), they will have to absorb a higher cost for enhanced UI benefits, COBRA coverage, etc. How will they display the new price tag for the package? My instincts are that the cost of their stimulus is more than \$900 billion now, and more than \$1 trillion with interest.

Conclusion

Obama Administration leaks to the media indicate that the upcoming Mid Session Review of the Budget will show a lower deficit for the current fiscal year than previously forecast. Let's be clear, this is spin and nothing more. The lower estimate is strictly the result of the Administration massaging their budget assumptions, not reality. The reality is, putting these gimmicks aside, that the FY 2009 deficit is larger. And, even the Obama Administration will have to admit that the deficit for every year after 2009 is even worse than they admitted earlier this year.

The Obama agenda is dangerous for America. In May, the CBO showed that the Obama budget is a mix of out-of-control spending, expansive government, and spiraling debt that threatens economic growth, feeds inflation and higher interest rates, and weakens our dollar. This week CBO will also issue its update to the budget outlook – and provide a spin-free look at the budgetary consequences of President Obama. Americans should ignore the spin and rely on the CBO report.